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SUBJECT: JAPAN RESUMES ODA TO VIETNAM

REF: Hanoi 1348, 1349 (2008), 94, 165 (2009)

**¶1.** (U) Japan has officially resumed ODA loans to Vietnam following a corruption scandal that forced the Japanese to suspend 2008 lending to the GVN (reflets). Representatives of both governments signed loan agreements and exchanged notes in Hanoi and Tokyo on March 31, the last day of the Japanese 2008 fiscal year, to mark the occasion.

The exchange of notes brings the return of approximately USD 900 million in ODA to Vietnam, making Vietnam the third largest recipient of Japanese ODA after India and Indonesia.

**¶2.** (SBU) The loans will be used to fund four infrastructure projects, including a rail line in Hanoi, some segments of which will be underground (approximately USD 150 million), anti-flood measures in Hanoi and Hai Phong (totaling USD 517 million) and national road network improvements (USD 182 million). Only the rail line loan is "tied" to the use of Japanese technology and expertise.

Limited loan disbursements will take place in 2009, most likely for consulting services. The vast majority of disbursements are expected to take place in 2010 after tendering and procurement processes are completed and contracts are awarded.

**¶3.** (SBU) In response to the global financial crisis and its effects on Vietnam, the Japanese tell us that they have accelerated disbursements for ODA loans in place before 2008. (Note: 2007 ODA was not affected by the suspension and continued to flow even while 2008 money was suspended.) While the total amount is still being determined, loans scheduled for 2009 include projects on climate change, energy efficiency, SME development, rural infrastructure and assistance to coal-fired power plants.

**¶4.** (SBU) Comment: The resumption of USD 900 million in loans is a victory for the GVN after Japan's widely publicized suspension of ODA last fall, but it doesn't mean that Vietnam is in the clear. A source at the Japanese Embassy tells us that, given the current political climate in Japan, another corruption scandal involving Japanese ODA in Vietnam may mean the end of such programs here. From an economic stimulus standpoint, the newly available money will not provide any immediate benefit, but could start to contribute to increased economic activity in 2009 if both sides remain committed to rapid implementation.

**¶5.** (U) This cable was coordinated with Con Gen HCMC.

MICHALAK